



## MEMORANDUM

TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

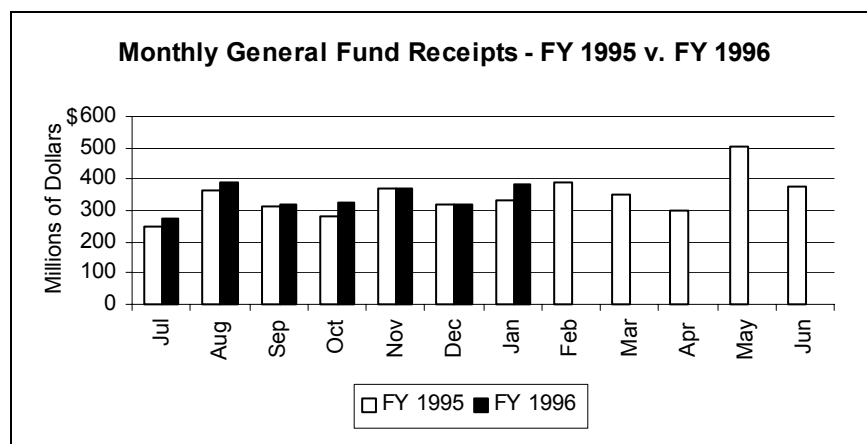
FROM: Dennis C. Prouty

DATE: February 1, 1996

### General Fund Receipts Through January 31, 1996

The attached spreadsheet represents total FY 1996 General Fund receipts, with comparable figures for FY 1995. These can also be compared to the latest FY 1996 estimate that was set by the Revenue Estimating Conference (REC) on December 12, 1995.

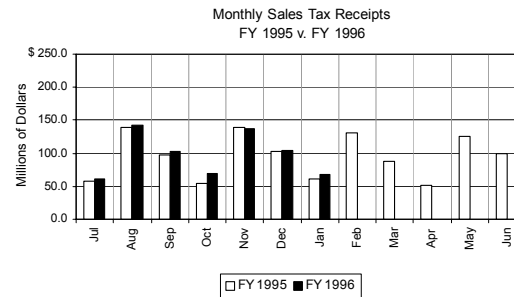
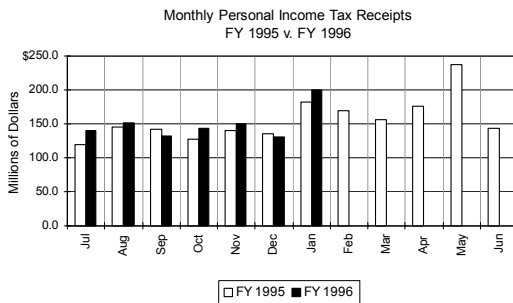
At the December meeting, the REC increased the FY 1996 General Fund estimate \$8.8 million to \$4.356 billion, which represents an increase of 4.9% over actual FY 1995 receipts. The REC increased the FY 1997 estimate \$14.5 million to \$4.490 billion, an increase of \$134.0 million (3.1%) compared to the latest FY 1996 estimate. Total FY 1997 General Fund receipts net of refunds are projected to increase 3.3% compared to FY 1996.



Total year-to-date General Fund receipts for FY 1996 increased 6.9% over FY 1995. Tax receipts showed an increase of 5.7%. Personal income tax receipts increased 5.6%. Sales tax receipts were 5.1% higher than the previous fiscal year. Use tax increased 8.4% over FY 1995, and corporate income tax receipts showed an 11.5% increase.

Personal income tax receipts through January totaled \$55.1 million more than the same period in FY 1995. Revenues received in January were 9.7% higher than January 1995, led by increases of 148.9% and 26.5% in returns and estimate payments respectively. The growth in estimate payments offset a decrease in the December figure. Withholding receipts, however, actually declined compared to

January 1995 by 2.0%. A significant share of the decrease in withholding and increase in estimate payments and returns was due to processing. January 1996 had one more processing day than January 1995, although year-to-date processing days are equal. It should also be noted that the majority of the impact from FY 1996 legislative and administrative changes (pension exclusion, dependent credit, and changes in withholding) has yet to occur.

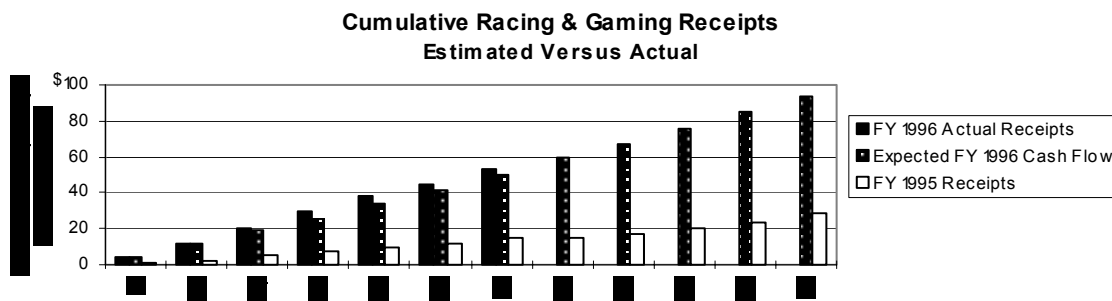


Sales tax receipts in January were 9.3% higher than January of last year. Collections from monthly and semi-monthly filers were 16.3% higher than January 1995. January's growth offset a decrease in December. Over the two-month period, total sales tax receipts were 3.7% higher than the same period in FY 1995. Higher utility bills are expected to continue to contribute to growth in sales tax receipts.

After two consecutive monthly declines, corporate income tax receipts jumped 13.8%. As with income tax and sales tax, part of this growth is due to an added processing day. In part reflecting the effect of processing, estimate payments grew 24.9% over January 1995. Receipts from returns declined 37.2% compared to January 1995 even though the number of processed pay returns increased 43.0%. The average receipts per return actually decreased more than 63.0%. Over the last three months, corporate income tax receipts have declined 0.9% compared to the same period in FY 1995. In anticipation of a slowdown in corporate income tax activity, the REC reduced the FY 1996 projection by \$16.9 million.

After finishing FY 1995 15.1% less than the previous year, franchise tax receipts in the first seven months of FY 1996 were 17.6% lower than the same period in FY 1995. Receipts in January were off 10.0% compared to January 1995. Over the last quarter, receipts have declined 1.4% compared to the same period last year. We are currently studying the effects of SF 478, a Bill passed during the 1995 Legislative Session to curb the loss of franchise tax revenues.

Racing and gaming receipts continue to be closely monitored. If cash flow adjustments are considered, receipts through January exceeded projections by approximately \$3.3 million, down from \$3.8 million last month. The following chart illustrates the expected cash flow for FY 1996 racing and gaming receipts.



## Receipts Compared to REC Estimate

The December REC FY 1996 estimate of 4.9% was exceeded by 2.0 percentage points. Assuming each month is expected to increase by the REC estimate, the estimate for the first seven months was exceeded by approximately \$43.9 million. If all of the timing factors are considered, this amount would be expected to decrease substantially. Receipts for the remainder of the year must grow 2.5% to reach the December FY 1996 REC estimate.

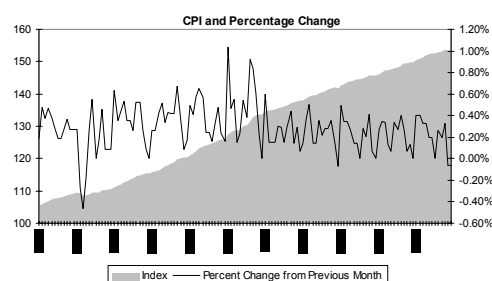
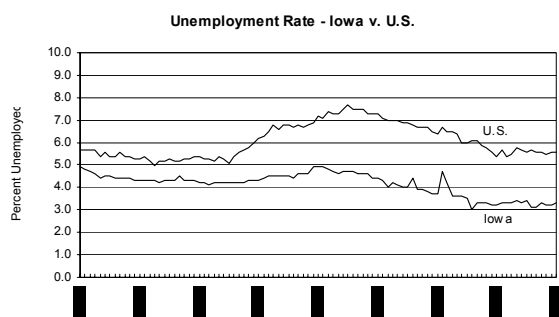
## Obligations

School aid payments are to be paid in monthly installments, subject to the cash position of the State. The January installment has been paid, and all payments are scheduled to be completed by June 1996.

## Status of the Economy

The seasonally adjusted percent unemployed for the State rose one-tenth of a percentage point to 3.3% in December. Preliminary estimates by the Department of Employment Services suggest that the unemployment rate for 1995 was also 3.3%. Additionally, average earnings outpaced inflation. Average hourly earnings through December for all private sector jobs increased 3.6% from last year. The U.S. unemployment rate in December remained unchanged at 5.6%.

Consumer prices in December decreased by a tenth of a percentage point for the second consecutive month. The Consumer Price Index (CPI) through December 1995 was 153.5 (1983=100), which is 2.5% higher than one year ago. The following series illustrate U.S. and Iowa unemployment comparisons and the CPI through December 1995.



On January 31, the Federal Reserve Board reduced short-term interest rates by a quarter percentage point for the second time since mid-December. The federal funds rate, the rate banks pay for overnight borrowing is now targeted to 5.25%. The reduction should have a positive impact on Iowa consumer spending over the next few months.

We will be mailing special tax and economic performance reports on a monthly basis. Feel free to contact us for additional information or if you feel the report needs clarification.

GENERAL FUND RECEIPTS - PREVIOUS COMPARED TO CURRENT PERIOD					ESTIMATED GENERAL FUND RECEIPTS in millions of dollars		
July 1, 1995, through January 31, 1996, in millions of dollars					FY 95 Actual Compared to FY 96 REC Estimate		
	FY 1995	FY 1996	Year to Date % CHANGE	January % CHANGE	Actual FY 1995	Estimate FY 1996	% CHANGE
Personal Income Tax	\$ 992.5	\$ 1,047.6	5.6%	9.7%	\$ 1,875.0	\$ 1,939.0	3.4%
Sales Tax	652.3	685.3	5.1%	9.3%	1,147.3	1,205.9	5.1%
Use Tax	112.4	121.9	8.4%	25.0%	196.0	210.0	7.1%
Corporate Income Tax	134.5	149.9	11.5%	13.8%	268.7	273.1	1.6%
Inheritance Tax	53.3	57.6	8.0%	88.6%	89.2	90.9	1.9%
Insurance Premium Tax	0.2	0.1	-27.9%	400.0%	102.1	101.0	-1.1%
Cigarette Tax	53.5	54.9	2.6%	32.6%	93.3	94.0	0.8%
Tobacco Tax	3.0	3.1	3.8%	4.6%	5.1	5.2	2.0%
Beer Tax	7.7	7.6	-1.6%	-4.5%	12.4	12.5	0.8%
Franchise Tax	18.7	15.4	-17.6%	-10.0%	28.9	29.4	1.7%
Miscellaneous Tax	1.4	1.6	13.6%	-943.7%	1.0	0.9	-10.0%
Total Special Taxes	\$ 2,029.4	\$ 2,145.0	5.7%	11.8%	\$ 3,819.0	\$ 3,961.9	3.7%
Institutional Payments							
Liquor Transfers:	60.9	58.7	-3.5%	4.5%	107.4	107.2	-0.2%
Profits	14.5	15.0	3.4%	33.3%	26.4	26.5	0.4%
7% Gross Revenue	5.3	5.3	0.0%	0.0%	9.0	9.0	0.0%
Interest	7.5	12.8	70.5%	354.6%	17.3	12.0	-30.6%
Fees	31.1	35.3	13.7%	29.2%	57.3	61.8	7.9%
Judicial Revenue	27.8	20.0	-28.0%	-33.1%	48.4	40.1	-17.1%
Miscellaneous Receipts	31.6	31.3	-0.7%	171.2%	40.7	44.1	8.4%
Racing and Gaming Receipts	15.4	52.8	242.3%	108.9%	28.5	93.4	227.7%
TOTAL RECEIPTS	\$ 2,223.4	\$ 2,376.2	6.9%	13.9%	\$ 4,154.0	\$ 4,356.0	4.9%